
Trade Adjustment Assistance: The More We Change the More It Stays the Same

HOWARD ROSEN

Throughout his career, Fred Bergsten has demonstrated deep appreciation for the domestic consequences of international economic developments and the need to address them in order to promote and sustain efforts toward international economic liberalization. In particular, he has consistently and vigorously called for assistance to workers, firms, and communities adversely affected by changes in international trade and investment.

His views on this issue are most clearly represented in a report he drafted for the Chamber of Commerce in 1973, calling for a significant expansion of the adjustment assistance program that was established in 1962 (a summary of the report is in appendix 5A).¹ The report sets out a critique of the 1962 program and proposes a series of detailed recommendations for expanding adjustment assistance.

In an unfortunate twist, the report is more relevant today than when it was written 33 years ago. This relevance is disconcerting because most of

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1. *Economic Adjustment to Liberal Trade: A New Approach*, prepared by the Task Force on Adjustment Assistance, US Chamber of Commerce. The report was also published in Bergsten (1973, 1975a, 1975b).

the recommendations have yet to be adopted, despite the rising importance of international trade to the US economy and the extent of worker, firm, and community dislocations. It is also troublesome that despite an increase in import competition and shifts in investment—and the economic dislocations associated with those developments—the Chamber of Commerce appears to have weakened its support for assisting those adversely affected by changes in international trade and investment.

Origins of Trade Adjustment Assistance

David J. McDonald, president of the United Steelworkers from 1952 to 1965, first floated the idea of assisting workers adversely affected by imports in 1954, as part of the minority report of the Commission on Foreign Economic Policy. McDonald's idea was to provide financial assistance to workers, firms, and communities instead of imposing border measures as stipulated under the existing escape clause procedure. Under his proposal, workers would receive training and relocation assistance in addition to unemployment compensation, technical and financial assistance would be provided to firms, and communities would be given preferential treatment in competing for government contracts.

Although Senators John Kennedy, Hubert Humphrey, and Paul Douglas supported McDonald's initial idea of assisting workers hurt by imports, it did not become law until 1962, with congressional approval of the Trade Expansion Act. The inclusion of worker assistance appears to have been a factor in winning the AFL-CIO's support for the act; indeed, the United Steelworkers, the United Auto Workers, and the Electrical Workers' unions all supported passage of the act (Mitchell 1976).

In keeping with its long-standing support for trade liberalization, the business community for the most part supported the Trade Expansion Act, although some business groups opposed the adjustment assistance provisions. In its testimony before the Senate Finance Committee during hearings on the act, the National Association of Manufacturers (NAM) raised four areas of concern that have remained part of the debate over trade adjustment assistance for the last 40 years:²

- Adjustment assistance seems to imply that there is something wrong with the operation of the free market. . . .
- Business enterprises and their employees are continuously affected, for better or for worse, by all sorts of events beyond their control. . . .

2. US Congress, Senate Finance Committee, *Trade Expansion Act of 1962*, 1630–31.

We . . . oppose singling out any one of these possibilities as a basis of a special program of Federal assistance.

- It is impossible to trace out all the effects of any given tariff change. . . . Judgments as to which firms or persons would be entitled to special assistance would inevitably be arbitrary. . . .
- All experience warns that programs of this type inevitably expand and proliferate.

On January 25, 1962, in a Special Message to Congress on Foreign Trade Policy, President Kennedy wrote,

Those injured by trade competition should not be required to bear the full brunt of the impact. Rather, the burden of economic adjustment should be borne in part by the federal government. . . . [T]here is an obligation to render assistance to those who suffer as a result of national trade policy. (Kennedy 1963)

This statement itself is not surprising—except for the context in which it was made: In 1962 imports accounted for less than 3 percent of GDP compared with over 13 percent in 2005; GDP growth was running at 6 percent in 1962 versus 3.5 percent in 2005; and the trade balance was in surplus in 1962 as opposed to a deficit of 6 percent of GDP in 2005.

The Trade Expansion Act of 1962, including the provisions establishing the adjustment assistance program, passed in the House by a vote of 298 to 125 and in the Senate by a vote of 78 to 8.

Given the economy's robust growth, the limited importance of imports to the economy, and tough eligibility criteria, no workers received assistance under the new program between 1962 and 1969.³ This was due in large part to the strict eligibility requirement that injury be directly and demonstrably linked to a US trade concession.

In 1973, as the policy community was preparing the most far-reaching trade legislation in years, Bergsten and others began to appreciate the prospect of an increase in the importance of international trade to the US economy. Recognizing the importance of *preparing* the economy for this development, Bergsten understood that this would require major changes in trade adjustment assistance. The Chamber of Commerce established the task force on adjustment assistance to review the existing program's track record and propose detailed recommendations for reforming and expanding the effort. Bergsten served as chairman of that task force.⁴

The task force's major criticisms of the existing adjustment assistance program were (Bergsten 1973):

3. The 25 petitions filed during this period were all denied (Storey 1999).

4. The Chamber of Commerce did not formally adopt the task force's recommendations, although Bergsten was afforded the rare opportunity to present them to the chamber's board.

- It enables little real adjustment to economic change for dislocated workers, providing only temporary supplements to unemployment compensation.
- Its assistance commences long after dislocation has occurred, and it delivers this long-delayed assistance far too slowly.
- Its level of compensation to workers for their loss of jobs is inadequate and frequently amounts to less than half of their previous earnings.
- The program provides no help whatsoever for communities.
- There is no high-level governmental attention to the program and no central direction to it.

Based on these criticisms, the report presented a long list of detailed recommendations for expanding and improving the adjustment assistance program (see appendix 5A for the complete list).

The Trade Act of 1974 is probably the most important piece of trade legislation passed by Congress since World War II. In addition to establishing the “fast track” process, making it possible for the United States to participate in multilateral trade negotiations, the act permanently established the Office of the US Trade Representative (USTR), transformed the Tariff Commission into the International Trade Commission (ITC), and formally established the enhanced trade adjustment assistance (TAA) program.

The reinvigorated TAA program liberalized eligibility criteria and expanded the assistance package. Among the important features of the program were the following:

- The explicit link to a US trade concession was removed. The trade test was changed to acknowledge that “imports contributed importantly” to a decline in output and employment.
- Certified workers received 26 weeks of income maintenance payments, called trade readjustment allowance (TRA), set at half the average manufacturing weekly earnings.
- Workers enrolled in training were eligible to receive an additional 26 weeks of TRA payments.⁵

Two Steps Forward, One Step Back

Between 1974 and 1981, US imports grew on average 15 percent a year and from 6 percent of GDP in 1975 to 8.5 percent of GDP in 1981. Although

5. Affected workers were thus entitled to 26 weeks of UI, 26 weeks of TRA, and an additional 26 weeks of TRA if enrolled in training.

manufacturing employment was relatively flat over this period, its share of total employment was beginning to fall. The US economy was entering a new phase, marking both a structural shift from manufacturing to services and the increasing importance of international trade to the economy.

TAA petitions increased significantly as a result of the increase in imports and the liberalization of eligibility criteria. The number of workers covered by petitions—most of them in the auto, steel, and textile and apparel industries—soared from 73,373 in 1975 to 874,968 in 1980, with the Department of Labor (DOL) certifying, on average, two-thirds of the petitions. The number of workers receiving TRA increased tenfold—from fewer than 50,000 in 1975 to more than a half million workers in 1980. Accordingly, outlays for TAA rose from \$71 million in 1975 to \$1.6 billion in 1980.

The number of petitions filed, the percent certified, the number of workers receiving TRA payments, and the TAA budget all increased significantly in 1980 from their levels even the year before. These increases were only partly explained by the fact that the growth in imports that year was above average for the period (a rise of 18 percent over the previous year) or by the fact that manufacturing employment declined by 700,000 workers in 1980 and its share of total employment fell by almost one percentage point, the largest decline in 5 years.

There were allegations that the large increase in TAA certifications proved that the Carter administration was using the program for political purposes during the 1980 election. There were reports that workers employed in the auto and steel industries were receiving TRA payments during periods of temporary shutdowns, thereby reducing the need for the unions to provide supplemental short-term assistance. The large increase in petitions placed a considerable strain on the DOL, causing lengthy delays in determinations. As a result, eligible workers received lumpsum instead of weekly payments, feeding the criticism that TAA did not facilitate adjustment.

To no one's surprise, TAA was high on the Reagan administration's "hit list" of programs to be eliminated when it came into office. Despite the administration's efforts, however, the program was not eliminated but instead reformed. Among the major reforms adopted, the amount of TRA payments was reduced to the unemployment insurance (UI) level and TRA payments, capped at 52 weeks, were made conditional on enrollment in training.

The outset of the Reagan administration also witnessed a dramatic decline in the percent of workers covered by certifications. On average 32 percent of workers covered by petitions were certified for TAA between 1976 and 1979. This rate reached a program high of 81 percent in 1980, before falling to an average of 20 percent between 1981 and 1984. By the end of the 1980s, the number of workers covered by petitions, the number of workers receiving TRA payments, and the program's budget had returned

to their pre-1980 levels. But TAA appeared to have lost its ability to win support for trade liberalization from the prolabor community—unions opposed liberalization and congressional Democrats' support for it also began to weaken.

The vote margin in the Senate in favor of major trade legislation has fallen from a high of 96 votes in 1984 to 30 votes in the most recent Trade Act of 2002. The decline in the House is much more pronounced—from a high of 388 votes in 1979 to only 3 votes on the Trade Act of 2002. Much of this change can be explained by the decline in Democratic support for major trade legislation. The percent of Senate Democrats voting in favor of major trade legislation fell from an average of 94 percent in the 1970s and 1980s to 37 percent in 2002. The decline in support for trade legislation is much more pronounced in the House, falling from an average of 85 percent in the 1970s and 1980s to just 12 percent in 2002 (Rosen 2003).

Critics argued that TAA was no longer meeting its initial objectives of promoting worker adjustment and winning support for trade liberalization. The prolabor community began referring to TAA as “burial insurance”—an inadequate quid pro quo for trade liberalization.⁶ Despite these claims, efforts to eliminate the program were unsuccessful.

In the early 1990s, the United States embarked on one of its most ambitious trade policy initiatives to date, the North American Free Trade Agreement (NAFTA). Unlike previous multilateral agreements, NAFTA was the first regional agreement between the United States and a low-wage country, Mexico. This fact conjured up the fear of competing against cheap imports, symbolized by Ross Perot's prediction that NAFTA would create “the great sucking sound” of US jobs into Mexico.

Despite considerable opposition, Congress passed NAFTA in 1993. The Clinton administration and Congress called for a separate program for workers who lost their jobs due to increased imports from and/or shifts in production to Canada and Mexico as part of the NAFTA implementing legislation. The NAFTA-Transitional Adjustment Assistance (NAFTA-TAA) program provided almost identical assistance to that provided under the general TAA program, with the exception of some differences in the scope of coverage. In addition to workers who lost their jobs in import-competing industries, NAFTA-TAA provided assistance to workers who

6. It has never been clear to what extent TAA “buys” congressional support for trade liberalization. Although organized labor strongly endorsed the establishment of adjustment assistance, it would probably have supported the Trade Expansion Act of 1962 even without the program. Since then, despite modest expansions in TAA, organized labor has opposed efforts at trade liberalization in 1974, 1988, 1993, and 2002. There are no detailed studies of the link between the TAA program and support for trade liberalization; even if there were, it is not clear that members of Congress would be able or willing to admit how important TAA was in determining their vote on trade liberalization.

lost their jobs due to shifts in production. The DOL also provided assistance to some “secondary workers,” people who worked for suppliers or downstream producers of firms that faced increased import competition from Canada or Mexico.⁷ Given the overlap in the two programs, NAFTA-TAA created considerable confusion and arbitrary discrimination between workers.

Between 1994 and 2000 the US economy experienced robust growth, growing on average almost 4 percent annually. At the same time, US import growth averaged 11 percent per year, raising the import penetration ratio from 9.5 percent of GDP in 1994 to 12.5 percent in 2000. TAA enrollment during this period continued to be lackluster, at best. The number of workers receiving TRA payments, under both TAA and NAFTA-TAA, between 1994 and 2000 averaged 32,600 per year, a comparatively modest increase from an average of 27,100 a year between 1982 and 1993. By contrast, budget outlays for TRA payments plus training more than doubled, from an annual average of \$143.8 million per year in 1982–93 to a \$318.4 million per year in 1994–2000. This increase was primarily due to a significant increase in the average duration of benefits, from an average of 23.8 weeks in 1982–93 to 52.7 weeks in 1994–2000, an increase that is especially noteworthy given the economy’s strong performance during the 1990s.

During the 1990s TAA provided up to 52 weeks of TRA payments, at a worker’s UI level, for as long as a worker was enrolled in training.⁸ The average weekly TRA payment in fiscal 2000 was a little over \$200 per week, less than half the total average weekly earnings (\$474) and barely a third of the average weekly earnings in manufacturing (\$598). Stipends for job search and relocation assistance were also provided.

The 2002 Reforms

Despite robust economic growth, congressional support for trade liberalization continued to erode through the 1990s, and the Clinton administration was unable to win congressional approval for fast-track trade negotiating authority. Upon coming into office, the Bush administration placed a high priority on getting congressional approval for fast track. In 2001, in an effort to capitalize on the administration’s efforts to obtain trade negotiating authority (by that point renamed trade promotion authority, TPA),

7. Under NAFTA-TAA, a downstream producer was defined as “a firm that performs additional, value-added production processes, including a firm that performs final assembly, finishing, or packaging of articles produced by another firm” (Public Law 103-182).

8. Beyond the 26 weeks of UI.

Senators Max Baucus and Jeff Bingaman introduced legislation to significantly reform and expand TAA.

The Trade Act of 2002, which Congress passed in July and President Bush signed into law in August, incorporated most of the provisions introduced by Senators Baucus and Bingaman, including the following:⁹

- TAA and NAFTA-TAA were merged—eligibility criteria and the assistance package under both programs were harmonized and unified in one program.
- Eligibility criteria were expanded to include workers who lost their jobs from plants producing inputs for goods that face significant import competition. Some of these workers were already covered under NAFTA-TAA.¹⁰
- Eligibility criteria were also expanded to include workers who lost their jobs due to shifts in production to countries with bilateral free trade agreements with the United States and “where there has been or is likely to be an increase in imports. . . .”¹¹
- A health coverage tax credit (HCTC) was added to the assistance package, allowing eligible workers a 65 percent advanceable, refundable tax credit to offset the cost of maintaining health insurance for up to two years.
- A wage insurance program was established. Workers over 50 years old and earning less than \$50,000 a year may be eligible to receive half the difference between their old and new wages, subject to a cap of \$10,000, for up to two years. In order to qualify, workers must find a new full-time job and enroll in the alternative trade adjustment assistance (ATAA) program (i.e., wage insurance) within 26 weeks of job loss, and they cannot receive assistance from the TAA program, except the HCTC.
- The cap for the program’s total training appropriation was increased from \$110 million to \$220 million.
- TRA payments were extended by 26 weeks so that workers can be enrolled in training and receive income maintenance for up to two years.
- The amounts provided for job search assistance and relocation assistance were increased to keep up with inflation.

9. The bill passed in the House of Representatives by a vote of 215 to 212 and in the Senate by a vote of 64 to 34.

10. The General Accounting Office (GAO 2000) estimates that this provision could add between 2,000 and 149,000 new participants each year.

11. Public Law 107-210, Section 113(a).

Table 5.1 Trade adjustment assistance program, 2000–2005

Item	2000	2001	2002	2003	2004	2005
Petitions						
Number filed	1,379	1,635	2,627	3,095	2,687	2,298
Number certified	845	1,029	1,647	1,885	1,733	1,545
Number denied	534	606	980	1,210	954	753
Percent denied	38.7	37.1	37.3	39.1	35.5	32.8
Number of workers covered						
by certifications	98,007	139,587	235,072	197,264	147,956	117,904
By denials	53,433	59,028	94,564	82,658	n.a.	38,213
Certifications						
Based on imports	845	1,029	1,594	1,158	n.a.	846
Based on shifts in productions	0	0	0	565	n.a.	611
Based on secondary workers	0	0	0	157	n.a.	88
Coverage						
New income support recipients	32,808	34,698	42,362	47,992	84,048	55,293
New training recipients	22,665	29,941	45,771	47,239	53,295	37,774
New on-the-job training recipients	304	194	292	386	n.a.	n.a.
New alternative trade adjustment assistance	0	0	0	42	n.a.	n.a.
Training waiver recipients	19,858	19,169	20,947	30,138	n.a.	52,336
Income support take-up rate (percent)						
	33.5	24.9	18.0	24.3	56.8	46.9

n.a. = not available

Source: US Department of Labor.

The 2002 provisions resulted in the most extensive expansion and reform of TAA since its establishment in 1962. In particular, the HCTC and ATAA programs were significant innovations in assisting unemployed workers.¹²

From 2001 to 2002 TAA petitions increased by more than 60 percent (see table 5.1). Some of this growth may have been due to the slowdown in the economy as well as increased attention to the program during the congressional debate over TPA. The number of workers receiving assistance under the program rose from approximately 35,000 in 2001 to just over

12. In the early 1990s, Canada ran a wage insurance demonstration program (Bloom et al. 1999) and in 2003 Germany instituted a wage insurance program similar to the US program.

42,000 in 2002.¹³ In 2003, following implementation of the 2002 reforms, the number of petitions filed rose by 18 percent and the number of workers receiving assistance by 13 percent. Although the number of petitions filed fell in both 2004 and 2005, the number of workers receiving assistance rose 75 percent in 2004, to 84,000, before falling to 55,000 in 2005.¹⁴

It is particularly noteworthy that TAA participation over the last several years has been low despite the overall weak performance of the US labor market, the continued growth in the import penetration ratio, the important expansion in eligibility criteria, including shifts in production and secondary workers, and no major change in the rate of petition denials.

One of the ongoing mysteries of TAA is the low percentage of certified workers who receive assistance, known as the “take-up” rate.¹⁵ Contrary to the expectation that this rate would be higher during times of economic slowdown, it actually fell from 33.5 percent in 2000 to 24.9 percent in 2001, before hitting a low of 18 percent in 2002. The take-up rate seems to have recovered since the implementation of the 2002 reforms, reaching almost 57 percent in 2004 before falling to about 47 percent in 2005.¹⁶

At less than 50,000 workers per year, the take-up rate for TAA is significantly lower than for UI.¹⁷ Discussions with workers and state and local

13. Data for 2000 to 2002 are for TAA only and exclude petitions for NAFTA-TAA. For fiscal 2003, petitions are for the combined TAA. The DOL has not provided a complete set of data in order to make the appropriate comparisons.

14. The increase in the number of workers receiving assistance despite the decline in the number of petitions filed can be explained by the increase in the “take-up” rate. Similar to the increase in the number of the petitions filed after the 2002 reforms, the increase in the take-up rate may have been due to improved awareness of the program. It is unclear why the take-up rate fell in 2005.

15. One potential explanation for the low take-up rates is that workers find employment without needing assistance. Although finding a new job is a desirable outcome, studies reveal both a need for reemployment assistance and large earnings losses even with reemployment. Kletzer (2001) reports reemployment rates in the range of 60 to 65 percent for trade-displaced workers, with the average reemployed trade-displaced worker experiencing an earnings loss of 13 percent. For a sample of displaced workers in Pennsylvania, Jacobson, LaLonde, and Sullivan (1993) report average earnings losses on the order of 25 percent five to eight years following job loss. Another possible explanation is that workers are not willing to enroll in training in order to receive income support.

16. Analysis of the impact of the 2002 reforms on the TAA program are seriously handicapped by the Department of Labor’s refusal to make data publicly available—except for some limited data for 2003, the DOL has not made available data concerning the wage insurance program. It has also been difficult to get data from the Internal Revenue Service about the HCTC.

17. Information from the DOL’s Employment and Training Administration shows that approximately 21 million workers made an initial claim for UI in 2003. See www.doleta.gov.

Table 5.2 Federal budget outlays for trade adjustment assistance, 2000–2005 (millions of dollars)

Assistance	2000	2001	2002	2003	2004	2005
Trade readjustment allowance	275	275	286	348	513	646
Training	129	132	131	222	258	259
Total	404	407	417	570	771	905

Source: Budget of the United States (various years), Office of Management and Budget.

service providers repeatedly confirm that insufficient knowledge about TAA helps explain its low take-up rates.¹⁸

However, as a result of the 2002 reforms, total outlays for TAA more than doubled between 2002 and 2005 (see table 5.2). Adding shifts in production and secondary workers to the eligibility criteria expanded the potential number of workers eligible for TAA. The reforms also enlarged the package of assistance available to workers—for example, by extending the period for receiving TRA and establishing the HCTC and ATAA programs.

Programs like TAA often face the criticism that government-financed labor-market adjustment programs do not work. Although there is evidence that some government labor market adjustment programs fall short of meeting the goals of reducing the period of unemployment and the size of permanent wage losses, there is considerable literature on the effectiveness of displaced-worker adjustment programs (Kletzer and Koch 2004). The arguments in favor of government-supported assistance for trade-related dislocated workers presented in this chapter are based on the premise that every effort should be made to design and implement effective programs that deliver meaningful assistance. From a political perspective, the question is: What would be the alternative to TAA? Political pressures suggest that doing nothing is highly unlikely (Rosen 2003). So the challenge is not whether to intervene but how to design the most effective interventions.

Running in Place

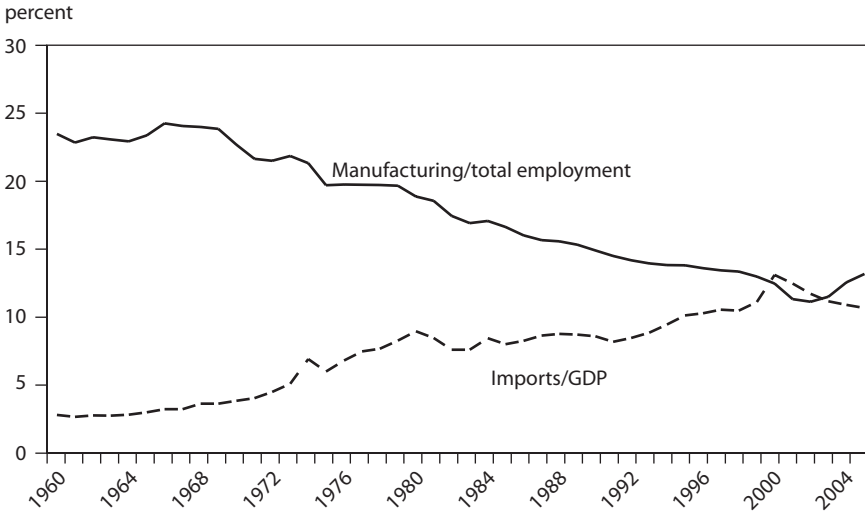
Despite significant changes in the US economy over the last 30 years (including both a large increase in import penetration and outward shifts in investment), as well as adaptations to the TAA program since its establishment in 1962 (see table 5.3), assistance to workers, firms, and communities

18. DOL performs virtually no public outreach to inform employers, workers, and communities of the existence of TAA.

Table 5.3 Legislative history of trade adjustment assistance

Legislation	Eligibility criteria	Trade readjustment allowance (TRA)	Training outlays	Other assistance
Trade Expansion Act of 1962	Increase in imports resulting from tariff reduction or other US trade concessions	65 percent of a worker's average wage for up to 52 weeks, additional 13 weeks for workers over 60. Unemployment insurance deducted from TRA.	Vocational education and training assistance	Relocation assistance
Trade Act of 1974	Imports "contributed importantly" to decline in production and employment	26 weeks at 70 percent of average weekly wage, not to exceed average manufacturing wage; additional 26 weeks if enrolled in training	Rose from \$2.7 billion in fiscal 1976 to \$13.5 billion in fiscal 1979, before falling to \$6 billion in fiscal 1980	Job search assistance (capped at \$500) and job relocation assistance (capped at \$500)
Omnibus Budget Reconciliation Act of 1981	No change	TRA payments reduced to upto 52 weeks at the unemployment insurance level, if enrolled in training	Rose from \$2.4 billion in fiscal 1981 to \$80 billion in fiscal 1993	Job search assistance (\$800) and job relocation assistance (\$800)
NAFTA Implementation Act	Imports from and/or shifts in production to Canada and/or Mexico "contributed importantly" to decline in production and employment	No change	\$30 million in addition to training funds under general trade adjustment assistance program	No change
Trade Act of 2002	Imports and/or shift in production "contributed importantly" to decline in production and employment; upstream and downstream "secondary workers"	Up to 78 weeks at the unemployment insurance level, if enrolled in training	Capped at \$220 million	Health coverage tax credit (65 percent), wage insurance (50-50-50), job search assistance (\$1,250), and job relocation assistance (\$1,500)

Figure 5.1 Manufacturing share of total employment and import penetration ratio, 1960–2005



Sources: Bureau of the Census; Bureau of Labor Statistics.

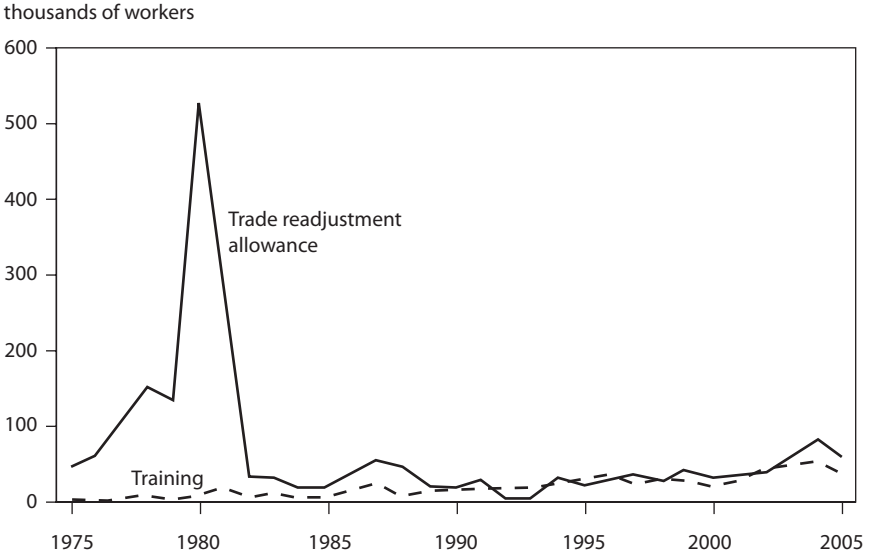
adversely affected by changes in international trade and investment remains far from the program Bergsten envisioned in the report he drafted for the US Chamber of Commerce in 1973.

From 1975 to 2005, the import penetration ratio more than doubled, from 6 percent in 1975 to 13.2 percent in 2005 (figure 5.1). At the same time, manufacturing employment as a share of total employment fell by half, from close to 22 percent in 1975 to 10.7 percent in 2005. Despite these developments, the number of workers enrolled in TAA remained fairly consistent, except in 1979–81 when there was a spike in enrollment associated with the 1980 presidential election (figure 5.2).

With the exception of the 1979–81 period, TAA budget expenditures were relatively flat from 1975 to the mid-1990s (figure 5.3). Two developments have contributed to the rise in expenditures over the past decade. First, there has been an increase in the duration of unemployment benefits, correlating with an overall increase in the duration of unemployment experienced throughout the workforce (Kletzer and Rosen 2006). Second, the 2002 reforms, primarily the expansion of eligibility criteria, help explain the more recent increase in expenditures.

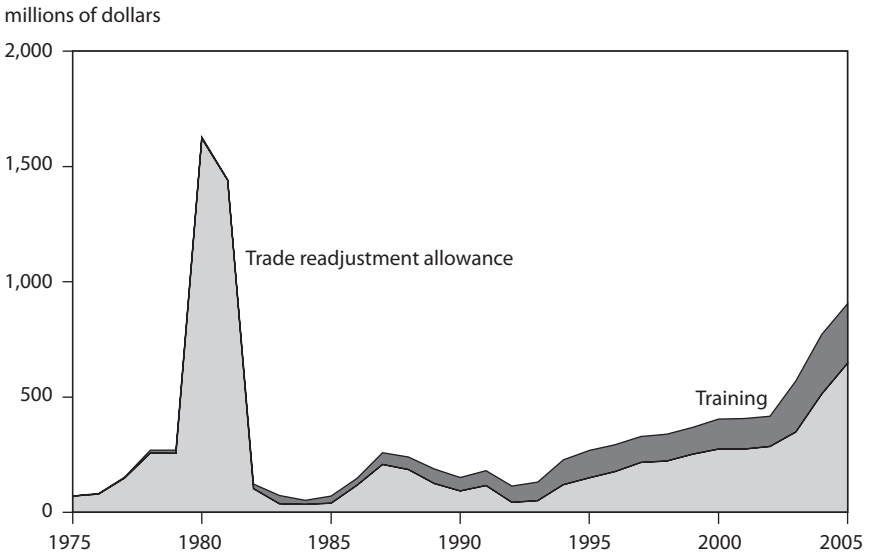
Bergsten’s 1973 report proposed that income maintenance be set at 75 percent of a worker’s previous wage. But the Trade Act of 1974 set the amount of TRA payments at 70 percent of a worker’s average weekly wage, not to exceed the national average manufacturing wage. Then in 1981 TRA payments were reduced to a worker’s UI level, about half of

Figure 5.2 Participants in trade adjustment assistance, 1975–2005



Source: Storey (1999).

Figure 5.3 Trade adjustment assistance budget expenditures, 1975–2005



Source: Storey (1999).

average weekly earnings. Thus, despite recent increases in the program's total expenditures and in the number of workers enrolled in the program, the amount of assistance each worker receives is actually moving in the opposite direction.

Chamber of Commerce Support for TAA

Another disturbing development in the history of TAA over the last 30 years is the business community's lukewarm support of the program, of which the Chamber of Commerce is just one example. In the early years the chamber led the business community in supporting assistance to workers adversely affected by import competition.¹⁹ This support appears to have continued through the 1990s. In a letter addressed to all members of the US Senate on October 13, 1999, R. Bruce Josten, the chamber's executive vice president for government affairs, wrote:²⁰

As for TAA, it is true that far more jobs have been created by expanded trade in the 1990s than have been lost, *but this mechanism still plays an essential role in assisting those who need retraining* [emphasis added]

By 2002, despite a significant increase in import penetration and a dramatic decline in manufacturing employment, the chamber once again led the business community, but this time in opposing the TAA reforms proposed by Senators Baucus and Bingaman. In a letter to members of Congress dated February 13, 2002, Josten wrote:²¹

The Chamber of Commerce has traditionally been a strong advocate of TAA. Unfortunately, the Senate bill contains several troubling provisions and bears little resemblance to prior TAA legislation. . . .

The chamber opposed the inclusion of the HCTC, claiming that it would "inflate employers' health benefit spending" and "extend the government-run Medicaid program." The chamber also opposed expanding eligibility to cover secondary workers on the grounds that it would "greatly expand (theoretically to virtually incomprehensible bounds) the eligibility provisions of the TAA. . ."

But the chamber's comments on the proposed wage insurance program were the most troublesome. Josten wrote:

We must also express our concern with the so-called "wage insurance program" which provides a government wage subsidy of up to 50 percent of the difference

19. Although the chamber supported adjustment assistance and later TAA, the organization did not formally endorse Bergsten's 1973 report.

20. See appendix 5B for the complete text of the letter.

21. See appendix 5C for the complete text of the letter.

between the wages received by a worker in his or her new job and the wages received at the time of separation for up to two years, capped at \$10,000. While the current eligibility criteria are targeted, the program raises many administrative concerns and sets a precedent for government intervention into employer wage structures, which will likely be extended to other government programs. Though immediate costs may be modest, the ultimate outlay for the government could potentially be enormous.

Contrary to Josten's assertion, providing eligible workers with wage insurance rather than up to 104 weeks of TRA payments and training would *significantly reduce* total outlays. As Josten acknowledges, assistance under wage insurance is capped at \$10,000 over two years, which is much less than the average cost of 104 weeks of TRA payments.²²

Unfinished Business

Despite significant changes made in 2002, the current TAA program remains less ambitious than the program envisioned by the Chamber of Commerce's 1973 report (table 5.4).

For the most part, the 2002 reforms were "fighting the last battle" and did not fully address recent economic developments such as the phenomenon of international outsourcing of services. In addition, there are several technical problems that were discovered while implementing the 2002 reforms.

The following is a list of the major issues that in my view still need to be addressed.²³

- **Service Workers.** The DOL follows a narrow interpretation of TAA eligibility, denying assistance to thousands of workers laid off from the service sector. According to the law, workers must prove that they lost their job to a firm that makes a product that is "similar or like an imported good." Although the law does not specifically restrict TAA eligibility to workers employed in manufacturing industries per se, over the years the DOL's interpretation of the law has de facto resulted in such a restriction. In response to several appeals brought before the Court of International Trade, the DOL recently partially reversed its position and announced that software workers who met the general eligibility criteria could receive assistance under TAA.
- **Industry Certification.** Petitions for TAA eligibility are currently filed according to firm-related layoffs, meaning that the DOL can receive

22. \$260 a week for 78 weeks (104 minus 26) equals more than \$20,000.

23. See Kletzer and Rosen (2005) for additional recommendations.

Table 5.4 Comparison of Chamber of Commerce’s task force proposals with current trade adjustment assistance program

	1973 task force proposals	Current trade adjustment assistance program
Eligibility	Decline in output and increase in imports of a likely or directly competitive product; workers of firms whose output declined and 50 percent of whose output represented inputs to product lines that met the overall injury test; other supplying firms could become eligible if they could demonstrate that their own problems were substantially due to the effect of import competition on their customers. There would thus be a presumption that injury existed and eligibility for assistance established when rising imports and reduced output coincided	Any group of 3 or more workers laid off from a company for which an increase in imports or shift in production “contributed importantly” to a decline in output and employment. Secondary workers also covered
Income maintenance	75 percent of earnings, up to \$12,000 (\$53,000 adjusted for inflation) for 26 weeks. Those enrolled in training would be eligible for an additional 52 weeks	State unemployment insurance level (current national average is \$262 per week, \$13,624 per year)
Early retirement	Workers 55 or older would be eligible for early retirement, receiving benefits at the level otherwise available at age 62 for those retiring before 60, and at the level available at age 65 for those retiring at 60 or over, under their private pension plans and the Social Security and Medicare systems. The additional costs of such early retirement would be reimbursed to the private firm or Social Security system by the new government assistance program	No provision; workers within 2 years of being eligible for Social Security or a private pension can waive the training requirement

(table continues on next page)

Table 5.4 Comparison of Chamber of Commerce’s task force proposals with current trade adjustment assistance program (*continued*)

	1973 task force proposals	Current trade adjustment assistance program
Insurance	Pay 100 percent of whatever premiums the companies had previously been paying, at the group rate prevailing before the worker was laid off, to enable all dislocated workers to maintain in full their insurance plans. Workers not covered could join the insurance plans for state government employees	65 percent health care tax credit; no provision for maintaining life insurance
Other forms of assistance	Job search and relocation assistance	Job search and relocation assistance; wage insurance
Firms	Firms are eligible for technical assistance from the government, on both a grant and reimbursable basis, if it is determined that they face a “threat of serious injury” from imports. Government guarantees should be extended—for a fee—to enable eligible firms to obtain credit from private sources	Firms eligible for technical assistance; no government loan guarantees
Farmers	No provision	Farmers who experience a 20 percent drop in the national average price from the average price of the previous 5 years can receive 50 percent of the difference; farmers must participate in technical assistance seminars
Communities	Base assistance on the program administered by the Office of Economic Adjustment in the Department of Defense	No provision

Source: Information obtained from Bergsten (1973).

multiple petitions from workers employed in the same firm as well as in the same industry. In an effort to streamline the petition process and remove arbitrary discrimination between workers from the same firm and industry, industry-wide certification should be added to the existing firm-related layoff certification. For example, if the apparel industry was found to experience a decline in employment related to an increase in imports, then any worker laid off from the industry, regardless of cause, would be immediately eligible for TAA without filing a petition.

Current eligibility criteria require documentation of an increase in imports, but for the most part these data do not exist for the service sector. Industry certification would therefore also facilitate eligibility determinations for workers displaced from service industries.

- **Training Appropriations.** Many states exhaust the funds available for training before the end of the fiscal year. In fiscal 2003, it quickly became clear that the appropriation cap included in the Trade Act of 2002, \$220 million, was insufficient to cover the potentially significant expansion in participation due to the expanded eligibility criteria. The funding cap should be raised to at least \$300 million and eventually linked to an estimate of how much money would be necessary to provide adequate training to all TAA participants.
- **Health Coverage Tax Credit (HCTC).** Under the new law, workers must receive income maintenance, which means that they must be enrolled in training in order to be eligible to receive the HCTC. This restriction severely limits the number of displaced workers who can receive the credit. A recent GAO report (GAO 2004a) found that this requirement has forced workers to enroll in training and to request income maintenance payments. Some argue that requiring a worker to undertake training promotes “real adjustment,” while others contend that it results in workers getting expensive assistance that they may not need or want. One proposal would be to provide the HCTC to all TAA-certified workers for up to two years or until the worker finds a new job, regardless of enrollment in training.

Other technical issues concerning the HCTC, such as the waiting period before enrollment, require immediate attention. Some members of Congress have called for increasing the tax credit above the current 65 percent.

- **Wage Insurance (ATAA).** The current program is restricted to workers over the age of 50. Although there is some evidence that older workers may have a harder time finding a new job, ATAA can benefit all workers. It is a cost-effective means of encouraging workers to find and take a new job, which should be the goal of any labor-market ad-

justment program. The age requirement for ATAA should be lowered so that all workers are eligible.

- ***Self-employed.*** The current program discourages workers from pursuing self-employment. One option would be to continue providing TRA payments and training to workers starting their own businesses.
- ***Outreach.*** Another recent GAO report (GAO 2004b) found that many workers are unaware of TAA although they are eligible to receive assistance. This may help explain why program take-up rates are so low. To date, the DOL has not performed any significant outreach to make employers and employees aware of the program. More resources need to be devoted to informing workers about TAA and other forms of assistance for dislocated workers.
- ***Community Adjustment.*** One of the lessons learned from large layoffs due to plant closings is that local economic and social conditions can exacerbate the adjustment process. Providing temporary financial assistance and training to workers is not enough to restore economic stability to the region.

One possible model for assisting communities under pressure from large plant closings would be to borrow from the Defense Department's experience in facilitating economic adjustment in response to military plant closings. It is interesting to note that this recommendation was also put forth in Bergsten's 1973 report.²⁴

- ***Data Reporting.*** Over the last decade, the DOL, under both Democratic and Republican leadership, has been extremely reluctant to release data related to TAA, despite the fact that these data, which were widely available in prior years, do not appear to include any sensitive information. Participation data are crucial to determining how well TAA is working and which aspects of the program need to be improved, eliminated, or expanded. Public access to TAA program data is therefore critical to monitoring and evaluating the program.
- ***TAA for Firms.*** The current program provides technical assistance to firms facing significant international competition, but the program is small—total outlays were \$16 million in 2005. Better coordination with other government-sponsored technical assistance efforts (such as the Manufacturing Extension Program and small business programs) could strengthen the program.
- ***TAA for Farmers.*** Cash payments under this program are very small under the current program, making it unattractive to farmers. The formula for determining cash assistance needs to be modified. Enroll-

24. A limited Adjustment Assistance for Communities program was initiated as part of the Trade Act of 1974 (Public Law 19 USC 2371) but was later repealed.

ment in technical assistance seminars has been encouraging, although it is too early to measure their effectiveness.

TAA as a Model for Assistance to All Displaced Workers

The US labor market is remarkably fluid (Kletzer and Rosen 2006). Nearly one of every five workers is expected to lose and/or gain a job in any given year.²⁵ In my view the extent of this turnover highlights a number of shortcomings in the country's existing labor-market adjustment programs.

Despite calls to customize labor-market programs to the needs of individual workers, the US UI system continues to operate on the "one-size-fits-all" model. States determine the amount of assistance independent of the reason for dislocation or a worker's difficulty in finding a new job. The triggers for extended UI are ineffective, as evidenced during the last recession. Access to government-financed training is similar to playing the lottery—funds allocated to states have little connection to actual need, and the demand for training funds is always greater than the amount budgeted.²⁶

Pressures on the US labor market due to technological change, productivity improvements, and international competition suggest the need for significant reform and expansion of all US labor-market adjustment programs. Unfortunately, the only area in which Congress and the president have been willing to even consider reform is TAA, and those reforms have been accepted only to achieve congressional approval of trade negotiating authority. Given the lack of political will to reform, redesign, and expand programs that would better meet the needs of US workers and their families, the second-best strategy appears to be to continue incrementally expanding TAA. Recent attention to service outsourcing further underscores the need to consider comprehensive expansion and reform. But although service outsourcing is receiving more attention than traditional trade-related job loss, concern over job losses in general is clearly broadening.²⁷

The phenomenon of outsourcing once again reveals the limits of targeted labor-market adjustment programs. Many workers adversely affected by outsourcing are not eligible for TAA. This has further fueled calls to expand TAA eligibility to cover service-sector workers. But this change alone will not be sufficient to address the problem, because of difficulties associated with clearly identifying the causes of job loss—an issue that is central to TAA.

25. This includes voluntary and involuntary job separations.

26. See Kletzer and Rosen (2006) for a more detailed discussion of the current UI system.

27. It is difficult to determine the extent of service outsourcing as existing data do not accurately capture this activity.

Another group of workers left out of TAA's reach are those employed in export-related industries. From 2000 to 2002 US exports fell by 11 percent, most likely contributing to job losses in related industries.²⁸ Although export-related job losses do not occur as frequently as those from import competition and/or shifts in production, they are no less painful or disruptive to workers and their families. Despite this fact, workers who lose their jobs due to a fall in exports are not eligible for assistance under TAA.

In order to address these administrative difficulties, one option would be to precertify large groups of workers, possibly by industry, occupation, or region. Another proposal would be to provide more assistance to all displaced workers, regardless of industry or cause of dislocation.²⁹ Providing TAA-type assistance to all dislocated workers would also require a major reform in the country's UI system, including the UI trust fund. But as with health care and social security, building a coalition to reform the country's UI system would be difficult to do. In the meantime, incremental changes may be easier to achieve.

An immediate reform would be to provide the HCTC to all displaced workers, a measure that would reduce the discrimination between workers who specifically lost their jobs due to changes in international trade and investment and all other displaced workers. This reform would also have the added benefit of reducing the growing number of uninsured.

Another option would be to provide wage insurance for a larger set of, or even perhaps all, displaced workers. Wage insurance encourages workers to accept a new job more rapidly, thus addressing one of the criticisms of UI. It also offers targeted assistance for an important aspect of involuntary job loss, potentially lower earnings on the new job.

Cost Estimates for Reform Proposals

Table 5.5 presents cost estimates for several proposals to expand coverage of the existing TAA program.³⁰ The first option would be to automatically

28. See Kletzer (2002) for an analysis of the link between changes in exports and job loss.

29. An immediate problem with this proposal is that it would break the link between TAA and trade policy. Although in reality the relationship has been evident only in periodic legislation, some policymakers may be opposed to weakening that link.

30. Estimates of the number of potential recipients are derived from the Displaced Worker Survey, a biennial supplement to the Current Population Survey. Data for 1998–2001 were initially analyzed. Impact and cost estimates for 2001 were significantly different from those for the earlier three years because of the recession. Estimates presented in table 5.5 are based on averages for 1998–2000. The average cost for income maintenance and training under TAA is approximately \$10,000 per worker per year. Because current training funds continue to be inadequate, an average of \$100 per worker per month was used in these estimates. The average cost for the HCTC is approximately \$200 per month per worker. Workers can receive the credit for up to 24 months.

Table 5.5 Estimated budget costs for trade adjustment assistance expansion

Item	Number of potentially eligible participants	Spending estimate (millions of dollars)				Total
		Trade readjustment allowance	Training	Alternative trade adjustment assistance	Health coverage tax credit	
Average fiscal 2004 and fiscal 2005	70,000	600	260	10	n.a.	870
Industry certification	165,000	1,900	750	100	375	3,125
All dislocated workers	575,000	7,000	2,800	900	1,400	12,100

n.a. = not available

Source: Author's calculations from the 2000 and 2002 Displaced Worker Surveys, Current Population Survey, Bureau of Labor Statistics.

certify all workers employed in industries facing significant pressure from imports and shifts in production. To receive assistance, workers would only have to prove that they worked in one of these industries. Approximately 83,000 workers would be displaced annually from the 27 industries determined to be “high import” industries.³¹ In addition, GAO (2000) estimates that there is a 1:1 relationship between the number of direct trade-displaced workers and secondary workers. Thus, approximately 165,000 workers per year could be expected to receive assistance under this reform proposal. It is estimated that covering all of these workers would cost a little over \$3 billion per year.

A second option would be to provide TAA to all dislocated workers. This would not only remove any remaining discrimination between workers but also significantly reduce the burden of administering a targeted program with specific eligibility criteria. Under this proposal, all dislocated workers, regardless of cause of dislocation or industry, would be eligible to receive the entire package of assistance currently provided under the TAA program.³² There would be no petition process. As with current TAA participants, all dislocated workers enrolled in training would be eligible for up to 104 weeks of income support, the HCTC, and wage insurance (ATAA), as well as job search and relocation assistance.

31. See Kletzer (2001) for the “highly import-competing” classification scheme.

32. Dislocation (displacement) is commonly understood to be the involuntary loss of a job, without regard to an individual worker’s performance. Dislocation does not include voluntary quits or firing due to reasonable cause.

Approximately 575,000 workers could potentially receive assistance under this proposal. Program costs for enrolling these workers in TAA, with the complete set of benefits, would be approximately \$12 billion per year.³³

Table 5.5 also presents costs estimates for providing just the HCTC and/or enrollment in wage insurance to the two groups of workers listed above. Providing the HCTC to all dislocated workers would cost approximately \$1.4 billion per year. Providing wage insurance, under the current structure, to the approximately 70,000 potentially eligible workers would cost a little less than \$1 billion per year.³⁴

Currently, UI is primarily financed through a complicated web of federal and state payroll taxes.³⁵ TAA is financed through general revenues, without any dedicated revenue offset.³⁶ One proposal would be to dedicate custom duties to finance a further expansion of TAA. In fiscal 2005, total custom duties equaled approximately \$23.4 billion, and they are projected to rise to \$34 billion by the end of the decade (OMB 2006). Since funds collected from custom duties are considered general revenue, diverting them to finance these proposals would contribute to the federal budget deficit. A more limited proposal would be to dedicate only the *increase* in custom duties over the next few years to offset the costs associated with expanding adjustment programs. This would also exacerbate the fiscal deficit and might not be sufficient to cover the total costs of the more ambitious proposals outlined above. Nonetheless, it might be a good way to jump-start the reform process.³⁷

Another option would be to increase the UI payroll tax, which is extremely modest—0.8 percent on the first \$7,000 of taxable income. For the vast majority of workers, this amounts to only \$56 per year. The ratio of taxable wages to total wages has fallen from 98 percent in 1938, when the UI trust fund was established, to 33 percent in 1997.³⁸ A simplistic, straight-line calculation suggests that each \$1,000 increase in the taxable wage base would generate approximately \$800 million in additional revenue each year.³⁹

33. Based on these estimates, trade-related displaced workers account for 14 percent of all dislocated workers.

34. In order to be eligible to participate in ATAA, workers must find a job within 26 weeks of the job loss. Thus ATAA participants are *not* included in the number of workers potentially eligible for income maintenance, training, and the HCTC. Kletzer and Rosen estimate that removing the minimum age requirement would raise the number of potential participants to approximately 450,000, at an estimated cost of \$4 billion per year.

35. The federal payroll tax accounts for approximately one-quarter of the UI trust fund.

36. Section 245 of the Trade Act of 1974 called on the Department of Treasury to establish a trust fund, financed by all custom duties, from which to finance TAA, but this trust fund has not been established.

37. It should be noted that there is long-standing opposition among economists to dedicated funding schemes.

38. The DOL has not published more recent data because of technical problems.

39. This estimate does not consider any income or substitution effects.

Obviously, a third option would be to finance these reforms the same way TAA is currently financed: through general revenues with no direct revenue offset.

Recent Congressional Activity

Several pieces of legislation aimed at further expanding and reforming TAA were introduced in the 109th Congress. Senator Baucus, Congressmen Smith and Rangel, and Congressman English introduced the most prominent bills. Table 5.6 presents a comparison of these bills.

Congressional support for TAA is not strong enough to enable both houses of Congress to pass stand-alone legislation implementing the changes outlined above. All previous changes in the program have been part of broader trade legislation—primarily legislation granting the president trade negotiating authority and implementing multilateral trade negotiations. There is no evidence that this pattern will change in the near future.

TPA expires in mid-2007. If enough progress is made on the WTO negotiations, Congress will be asked to consider implementing legislation. If not, the president will likely ask Congress to consider an extension or renewal of TPA in order to complete the negotiations. Either one of these scenarios would provide an opportunity for Congress to consider the more ambitious TAA reform agenda outlined above.

Conclusion

Bergsten has been one of the most outspoken economists acknowledging the domestic consequences of international economic developments and advocating assistance to workers, firms, and communities adversely affected by those developments.

Although the labor community initially embraced the concept of adjustment assistance as part of its support for the Trade Expansion Act of 1962, its support for trade liberalization has diminished to the point that the community currently opposes almost all efforts to further liberalize trade. Labor unions have long ceased considering TAA as a quid pro quo for trade liberalization, referring to it instead as “burial insurance.” But TAA provides assistance to those facing probably the greatest financial crisis of their lives.

Support for TAA in the business community also appears to have waned. The decline in TAA’s ability to “buy” support for trade liberalization and a general skepticism over government-sponsored labor-market programs have combined to undermine the business community’s support for TAA. The recent apparent reversal in the Chamber of Commerce’s views on TAA serves as a prime example of this phenomenon.

Table 5.6 Comparison of proposed changes in the existing trade adjustment assistance program: Bills introduced in the 109th Congress

Congressman	Eligibility criteria	Coverage	Training appropriations	Other assistance
Senator Max Baucus (D-MT) S 1309, S 365, S 1444, and S 1963	Automatic certification for any industry subject to trade remedy under antidumping, countervailing duties, or safeguards; US Department of Labor can certify any industry or occupation from which three or more petitions have been filed within six months or which Senate Finance Committee or House Ways and Means requests	Include service workers	Replace cap with formula	Lower wage insurance threshold age to 40
Representative Adam Smith (D-WA) and Representative Charles Rangel (D-NY) HR 4156	Same as Baucus	Same as Baucus	Increase cap from \$220 million to \$660 million by 2012	Increase health coverage tax credit to 80 percent
Representative Phil English (R-PA) HR 6208	Same as Baucus	Same as Baucus	Replace cap with formula	Increase health coverage tax credit to 75 percent; lower wage insurance threshold age to 40

Source: Information obtained from Trade Adjustment Assistance Coalition, www.taacoalition.com.

Despite significant changes in the US economy over the last 30 years, including an increase in the import penetration ratio and a decline in manufacturing employment as a share of total employment, efforts to assist workers adversely affected by increases in imports and shifts in production have remained modest at best. In fact, the current TAA program continues to fall short of the recommendations in Bergsten's report, written more than 30 years ago.

Several pieces of legislation have recently been introduced to continue the efforts begun in 2002 to reform and expand TAA. These proposals include extending eligibility criteria to cover workers who lose their jobs from service industries, establishing a process for certifying entire industries, increasing the budget cap on training expenditures, and expanding the HCTC and wage insurance programs. These proposals are likely to be considered as part of any congressional effort to extend or renew trade promotion authority in 2007.

It would seem that increased importance of international trade to the US economy and the growing concern over economic dislocations would make assistance to workers, firms, and communities facing these pressures more relevant in 2006 than it was in 1973. Yet despite public support for this kind of assistance and election year rhetoric on the need to increase worker training, policymakers have been reluctant to expand labor market adjustment programs like TAA. It remains unclear if expanding programs like TAA can save the remaining support in Congress for trade liberalization. The link between further trade liberalization and assistance to workers, firms, and communities adversely affected by increases in imports and shifts in production is likely to be tested over the coming years.

Appendix 5A

Summary of Recommendations in *Economic Adjustment to Liberal Trade: A New Approach*, Report of the Task Force on Adjustment Assistance, US Chamber of Commerce

1. Eligibility

- a. Workers employed continuously by a firm for more than six months should be presumed to be eligible for assistance if layoffs affect a significant share (perhaps 5 percent) of those engaged in producing a product in which total domestic output and the output of their particular firm have declined, and imports of a likely or directly competitive product have increased, over a representative period of time (perhaps the latest twelve months for which data are available compared with either of the two previous twelve month periods, or an average of those two periods).
- b. Firms would be presumed eligible if their own output and total national output of the product declined while imports rose, and for certain forms of assistance when there was serious threat of such developments, if the product represented a substantial share of the total output of the firms, unless imports were generated by the firm itself.
- c. Firms, and workers thereof, whose output declined and 50 percent of whose output represented inputs to product lines that met this new injury test themselves would be eligible; other supplying firms could become eligible if they could demonstrate that their own problems were substantially due to the effect of import competition on their customers.
- d. Communities would automatically be eligible when a significant share (perhaps 5 percent) of their total workers has been declared eligible for the program themselves. Communities could qualify in any event by demonstrating that their own problems were substantially due to the effects of import competition.
- e. In all of these cases, there would thus be a presumption that injury existed and eligibility for assistance established when rising imports and reduced output coincided. The presumption could be challenged by the administering authority in cases where it felt that imports were not a substantial cause of the dislocation, as could often be the case for firms where poor management (including failure to anticipate competition from imports) was the crucial factor.

2. Speed of Delivery

- a. The government should actively contact firms (and trade associations) to keep abreast of their judgments concerning trade trends, and inform firms of problems that appear to be developing.
- b. Firms should actively consult the government to check out their own individual views as they make their future investments and marketing plans.
- c. The Chamber also recommends that firms be eligible for technical assistance from the government, on both a grant and reimbursable basis, when the administering authority determines in advance of the actual manifestation of any injury that they face a “threat of serious injury” from imports.
- d. The Chamber views it as the responsibility of the US firms to give the maximum possible advance notice to workers whom they will be laying off and to provide them with full information concerning the available benefits under the proposed program. It urges all firms to comply with this principle.

3. Compensation Benefits for Workers

- a. The Chamber believes that 75 percent is a reasonable level of compensation and recommends that it replace the present level (with a ceiling of an annual rate of \$12,000 for any individual worker).
- b. There should thus be no alternative calculation based on the national average.
- c. For those few workers affected by imports who are not covered by unemployment insurance, the assistance program would have to finance all benefits.
- d. The Chamber thus recommends that the government assistance program pick up whatever premiums the companies had previously been paying, at the group rate prevailing before the worker was laid off, to enable all dislocated workers to maintain in full their insurance plans.
- e. In cases where workers were enrolled in local plans that could not be maintained, if they moved elsewhere to train or pursue jobs, they could join the insurance plans for employees of the government of the states to which they had moved for the temporary period in question.

4. Adjustment by Workers

- a. Workers would thus have to be actively seeking employment to receive any of the compensation benefits just described.

- b. Workers would also have to apply for retraining programs to qualify them for suitable jobs, that were identifiable as available, to use the skills when they were trained for them, and join those training programs as soon as openings developed.
- c. The Chamber therefore recommends that the full compensation benefits as outlined above be paid for the duration specified in the present act, except that the extension period for workers in training programs be increased from 26 to 52 weeks.
- d. Workers 55 or older would be eligible to receive the same benefits. The Chamber therefore recommends that older workers be offered the alternative early retirement, with immediate commencement of benefits (at the level otherwise available at age 62 for those retiring before 60, at the level available at age 65 for those retiring at 60 or over) under their private pension plans and the Social Security and Medicare systems.
- e. The additional costs of such early retirement would be reimbursed to the private firm or Social Security system by the new government assistance program.
- f. To utilize effectively both the on-the-job and institutional programs, sharp improvements are needed in the federal-state employment service and computerized job-worker matching, including better statistics on “jobs available” and continuous updating of job definitions.
- g. All dislocated workers should receive sharply improved counseling services to bring workers and jobs together.
- h. Workers should be authorized to use private counseling services approved by the government, but under its continuing surveillance, and be reimbursed for the costs thereof.
- i. Trade-dislocated workers should be eligible to participate in all present programs, and the new counseling programs must assure that workers will be aware of all alternatives available to them.
- j. The costs of such moves should be completely financed by the trade adjustment program.
- k. All dislocated workers, not just heads of families, should be made eligible for relocation expenses.

5. Adjustment by Firms

- a. Government guarantees should be extended—for a fee—to enable eligible firms to obtain credit from private sources.

- b. The interest rate on guaranteed loans should not be tied to the borrowing rate of the Treasury.
- c. Guarantees should cover 100 percent of the private loans (instead of the present 90 percent ceiling) if they were arranged sufficiently early in the adjustment process to provide high promise of saving the firm.
- d. Technical assistance, including consideration of mergers and sales of a firm's assets, should be expanded through additional use of private consultants approved by the government and under its continuing surveillance, at the earliest instances made possible by the new system of early warning, the new criteria, and the improved administration.

6. Adjustment by Communities

- a. Eligible communities should then receive attention of the type carried out successfully by the Office of Economic Adjustment in the Department of Defense, in recent years on behalf of the President's Inter-Agency Adjustment Committee, for over 160 large and small communities (including entire counties) impacted by changes in defense spending since 1961.
- b. Financing from ongoing government programs should be available under the new trade adjustment program as well.

7. Administration

- a. A single agency is needed to administer the adjustment program under tight time limits specified in the authorizing legislation.
- b. The Chamber recommends the creation of a new government agency independent of all existing departments.
- c. In view of the long run and continuing nature of the adjustment problem the new government agency should operate under a multi-year authorization.
- d. The policy director of the agency, within the framework legislated by the Congress, should be set by a mixed board comprising the relevant government officials and representatives from the private sector.

Source: Economic Adjustment to Liberal Trade: A New Approach, prepared by the Task Force on Adjustment Assistance, US Chamber of Commerce. The report was also published in Bergsten (1973, 1975a, 1975b).

Appendix 5B

October 13, 1999

To All Members of the United States Senate,

The Senate is expected to consider soon bipartisan legislation to boost American trade. The U.S. Chamber of Commerce urges your support for the trade package embracing the African Growth and Opportunity Act, Caribbean Basin Initiative (CBI) enhancement, and legislation to renew the Generalized System of Preferences (GSP) and Trade Adjustment Assistance (TAA).

Passage of the Africa and Caribbean Basin bills would open markets to U.S. investors and exporters by encouraging improved intellectual property protection, reduced trade barriers, and market reforms in these countries. This legislation would encourage economic reform while offering a helping hand rather than a hand-out. For Central America and the Caribbean, a positive vote would expand on a trade initiative with a 15-year record of success. U.S. exports to the Caribbean Basin have quadrupled since CBI became law, and the American economy will continue to benefit from this dynamic trade relationship if CBI Enhancement is passed.

Renewal of GSP and TAA is also essential. Recent lapses in GSP have threatened to destabilize commercial relationships that depend on the program. The U.S. Chamber has long argued that the competitiveness of U.S. companies should not be undercut by the uncertainty that has already resulted from lapses in the GSP program. As for TAA, it is true that far more jobs have been created by expanded trade in the 1990s than have been lost, but this mechanism still plays an essential role in assisting those who need retraining.

As the world's largest business federation, representing more than three million businesses, the U.S. Chamber of Commerce believes that American workers, consumers, and businesses will benefit greatly from passage of this trade package. We urge you to cast a favorable vote.

Sincerely,

R. Bruce Josten
Executive Vice President
Government Affairs

Appendix 5C

February 13, 2002

MEMBERS OF THE UNITED STATES SENATE:

On behalf of the U.S. Chamber of Commerce, the world's largest business federation, representing over three million businesses and organizations of every size, sector and region, I am writing to urge the Senate to take prompt action on a critical priority, Trade Promotion Authority (TPA).

Last fall, the House of Representatives took the important first step of doing what should have been done years ago. The House passed TPA legislation that will help put American businesses, workers and consumers back in the game of international trade. Since TPA expired in 1994, the U.S. has sat helpless on the sidelines while other countries have woven a spider web of preferential trade agreements that put American companies at a competitive disadvantage. Of over 130 regional free trade agreements in force today, the U.S. is party to just three.

American small business owners and workers have been assured repeatedly that the Senate is listening to their pleas for action on TPA. Support for the TPA bipartisan compromise legislation is strong, yet the Senate has still failed to take up the TPA bill this Congress.

Now we are advised that TPA cannot move ahead in the Senate unless and until it is attached to separate legislation on Trade Adjustment Assistance (TAA). The Chamber of Commerce has traditionally been a strong advocate of TAA. Unfortunately, the Senate bill contains several troubling provisions and bears little resemblance to prior TAA legislation or even to the TAA reauthorization bill that passed the House of Representatives last year by an overwhelming vote of 420-3.

The TAA legislation (S. 1209) now pending before the Senate includes provisions that will inflate employers' health benefits spending beyond the current record increases, and extend the government-run Medicaid program for the poor to individuals with potentially far greater means. While individuals who participate in COBRA health coverage pay the full premium, plus a two percent administrative fee, employers' actual cost of COBRA benefits average 154 percent of the cost of their general employee pool. Further, because S. 1209 directs the 75 percent subsidy for COBRA benefits to group health plans rather than to the individual, employers face significant administrative requirements and issues, including financial liability for the individual's enrollment until funds from the U.S. Treasury are transmitted to the plan. We are greatly concerned that adding people to the Medicaid rolls when state budgets are so constrained will force program payments to providers to shrink even further, sending some of our most essential safety net providers to the breaking point. We urge

you to reconsider the impact of this proposal on employers and pursue alternative health care financing arrangements that empower the individual to select a health plan that best meets his or her needs.

S. 1209 also includes a section that grants adjustment assistance to secondary workers at “downstream” producers and suppliers. Downstream producers, as defined in the bill, are firms that perform “additional value-added production processes” such as finishing or packaging of articles produced at a firm whose employees are “adversely affected.” The bill defines supplier to include providers of services. These provisions greatly expand (theoretically to virtually incomprehensible bounds) the eligibility provisions of the TAA, especially in light of the change in eligibility criteria from decreases in sales or production to increases in volume of imports and shifts in production to foreign countries.

We must also express our concern with the so-called “wage insurance program” which provides a government wage subsidy of up to 50 percent of the difference between the wages received by a worker in his or her new job and the wages received at the time of separation for up to two years, capped at \$10,000. While the current eligibility criteria are targeted, the program raises many administrative concerns and sets a precedent for government intervention into employer wage structures, which will likely be extended to other government programs. Though immediate costs may be modest, the ultimate outlay for the government could potentially be enormous.

Clearly, the current Senate version of TAA legislation raises serious questions that should be addressed through hearings and modifications to the bill. One alternative, which is receiving growing support, would be to pass legislation similar to the House-passed TAA bill. That would enable the Senate to act quickly on TAA while releasing the current stranglehold on TPA. We believe this approach provides the best solution with the greatest likelihood of prompt action and strong bipartisan support in the Senate.

We hope that we can count on you and your colleagues in the Senate to do the right thing by moving forward on a non-controversial version of TAA and allowing TPA to come to the floor soon for a vote.

Sincerely,

R. Bruce Josten
Executive Vice President
U.S. Chamber of Commerce

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